RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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March 9, 1977 **LETTER 691**

Feb. 25, DJIA 933.43; PTI 808; A-D Ratio −20.35
Mar. 4, DJIA 953.49; PTI 831; A-D Ratio −19.68

DIFFICULT: I'm always a bit worried when I send out a mailing such as this one. Frankly, this report contains a lot of tough reading and difficult concepts. I wish I was a wizard, and I could just say to subscribers, "Buy 'em" or "Sell them out." And everyone would say, "Gee, Russell, that's easy as hell. I did exactly what you said; now tell me when to move next."

Once in a while, maybe once in every two to five years, I can say something with total emphasis, and it's a pleasure to do so. In early 1966 I said, "Get out and stay out" and that was that. In December, 1974 and January, 1975 I said, "Let's buy them, it's a new primary bull market." But most of the time I'm walking around with thoughts of trendlines and non-confirmations and interest rates batting through my head, and it's not easy and it's not all one way and it's not as clear as a bell.

In this Letter I present a number of concepts that I'd like you to study. The fact is that when you're investing, like it or not, you are competing with the hardest, coldest, smartest, sharpest brains and money on earth. If the bright boys are wracking their brains trying to figure where to put their money, who are you or I to deserve all the answers without lifting a finger?

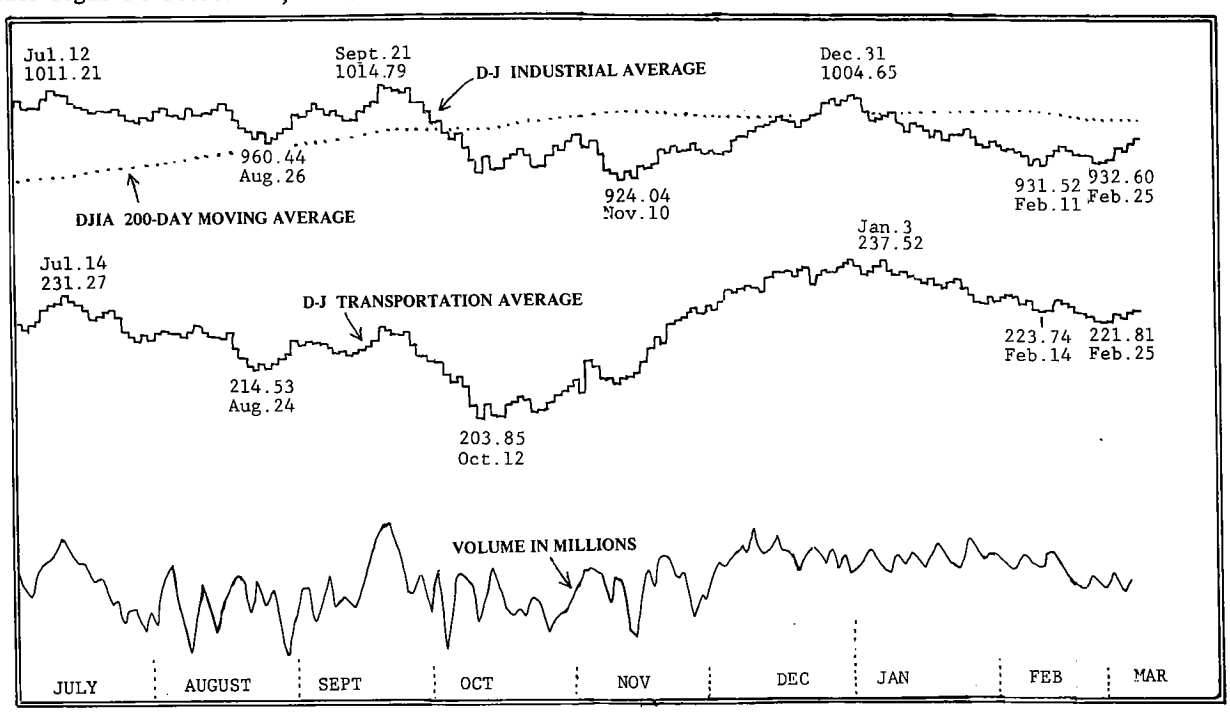
An interesting observation along these lines is that readers of these reports have literally "up-graded" themselves over the years. I must say that I am both pleased and surprised at the calibre of subscribers we have today. I would say that the biggest change is the percentage of readers now on the books who are serious market students, corporate executives, Wall Streeters, bankers, investment advisers and money managers. Nothing connected with investing is easy any more, and the best minds in the nation are only too aware of that fact.

THE PICTURE: A powerful rise in the great majority of NYSE issues began on October 25, 1976. Such advances often develop into what I term a "buying stampede." I define a buying stampede as any advance which is powerful enough and persistent enough to raise the Advance-Decline Ratio 5 points without so much as a 1 point intervening correction. This is exactly what occurred between October 25, 1976 and January 3, 1977. Following the peak of strength on January 3, the A-D Ratio and the majority of NYSE issues backed-and-filled for a period of almost two months. Despite the decline in the major Averages, the strength in the A-D Ratio was so stubborn that the A-D was able to hold within 1 point of the January peak (see page 2 chart) until February 11. After that, the buying stampede ended.

The termination of the buying stampede constituted one of the three "insurance points" which I had outlined in Letter 688. I debated with myself as to whether I should issue the Letter 690 "Supplement" since the termination of the buying stampede alone was not a sufficient reason to turn bearish on the near-term. But a second potential factor had entered the picture, and that's why I included the Supplement.

Note on the chart (below) that the D-J Industrial and Transport Averages recorded important secondary lows last year, 203.85 for Transports (Oct. 12) and 924.04 for Industrials (Nov. 10). Next the Averages advanced with Transports recording a new bull market high on January 3 at 237.52. The Industrials failed to confirm the advance (a confirmation would have entailed an Industrial bettering of the Sept. high of 1014.79).

A steady decline followed this non-confirmation. By early February, it was obvious that Transports were putting on a strong showing in the face of a weak Industrial Average. On February 11 Industrials halted at 931.52, less than 1% above their previous November low. On February 14 Transports stopped at 223.74, almost 10% above their own previous October low.



A minor rally ensued. Often, it's the little movements that provide the *hints* of what is to come. Following the rally, the two Averages turned down, and it was here that I watched closely. On February 22 the Transports broke below their February 14 low of 223.74. Industrials over the past five months had quickly confirmed every decline in Transports. But at the February lows something new appeared–the Industrials turned strong. They appeared not to want to follow Transports under the February lows. This represented a *change* in the character of the market.

This is the reason that I wrote in the Supplement to the last Letter that the ability or inability of Industrials to *hold above 931.52* would be a key factor in judging the market. As fate would have it, the Supplement was written in the morning when the Industrial Average was well under the 931.52 point. By the close Industrials had snapped back *above the 931.52 level.* As of this writing, Industrials have not only held persistently above 931.52, but they have rallied. This performance constitutes the first showing of Industrial strength since the highs of last September. I assume (or hope), therefore, that subscribers "sat" with their positions as they watched the Industrial performance.

As I see it from a Dow Theory standpoint, there are a number of considerations which should now be fixed in mind. (1) We are, and have been, in a primary bull market ever since late-1974. (2) The tidal advance was *interrupted* last July, at the points where the two Averages(Industrials and Transports) recorded their last confirmed highs. (3) A *downtrend* began on December 31, 1977 when Industrials refused to confirm a new high recorded by Transports.

(4) The *continuation of the downtrend came into question* when Industrials, on February 25, refused to follow the Transports under the mid-February lows. (5) The strength of the current rally will tell us a lot about what's in store for the market between now and mid-year.

Question: Actually, what is the current status of the market, and what should we be looking for?

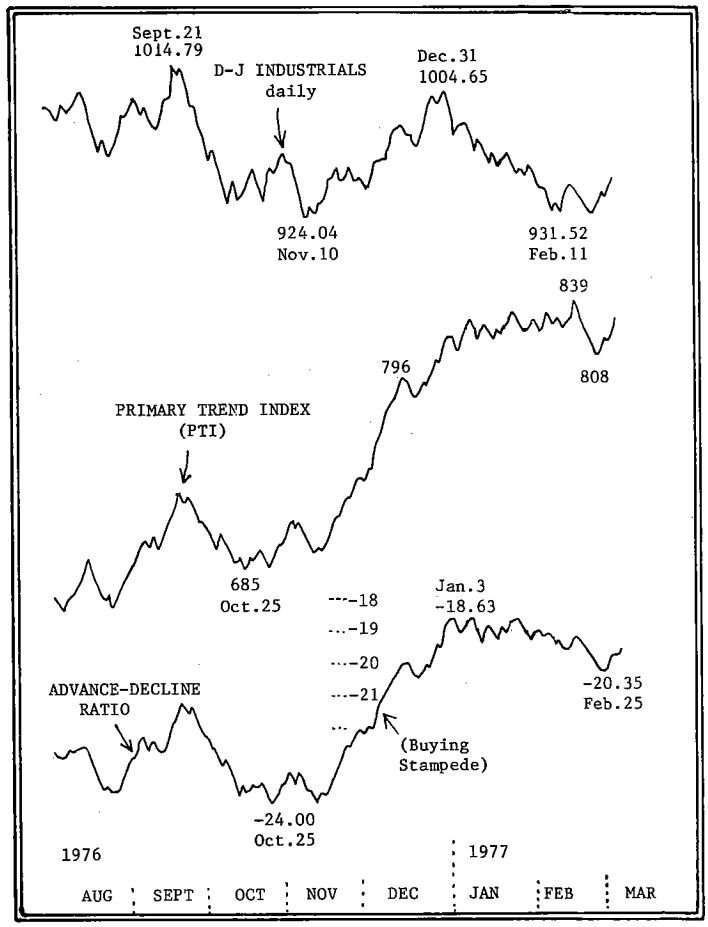
Answer: I think it is hopeful that we now have a set of significant low points which are **above** the lows of last October-November. To me, it's a sign of strength that the Averages were able to halt their decline at the mid-February lows, rather than move down and test the lows of last October-November. Therefore, I would watch the most recent low points of **931.52** for Industrials, **221.81** on Transports. As long as one or both of those lows hold during any further weakness , we can sit tight. Below those lows are the 924.04 and 203.85 lows of last year. Let's hope they won't have to be tested at all.

Question: What can we look for on the upside, assuming the market turns strong and we have an extended advance?

Answer: I would like to see Industrials break out above the December peak of 1004.65 with Transports confirming by bettering 237.52. It would also be a big plus if Utilities could better their recent bull market peak of 111.87 (January 25, 1977).

Question: I note that you only take the **closing** Dow figures into account, why?

Answer: This is a 75-year old Dow Theory procedure. The rationale is that traders, in-and-out scalpers and specialists can conceivably manipulate the market or the Averages during the day. But many traders "clean house" before the closing of the Exchange each day, and that is why the final figures are the ones that count. It's exactly like a prize fight; a man can look

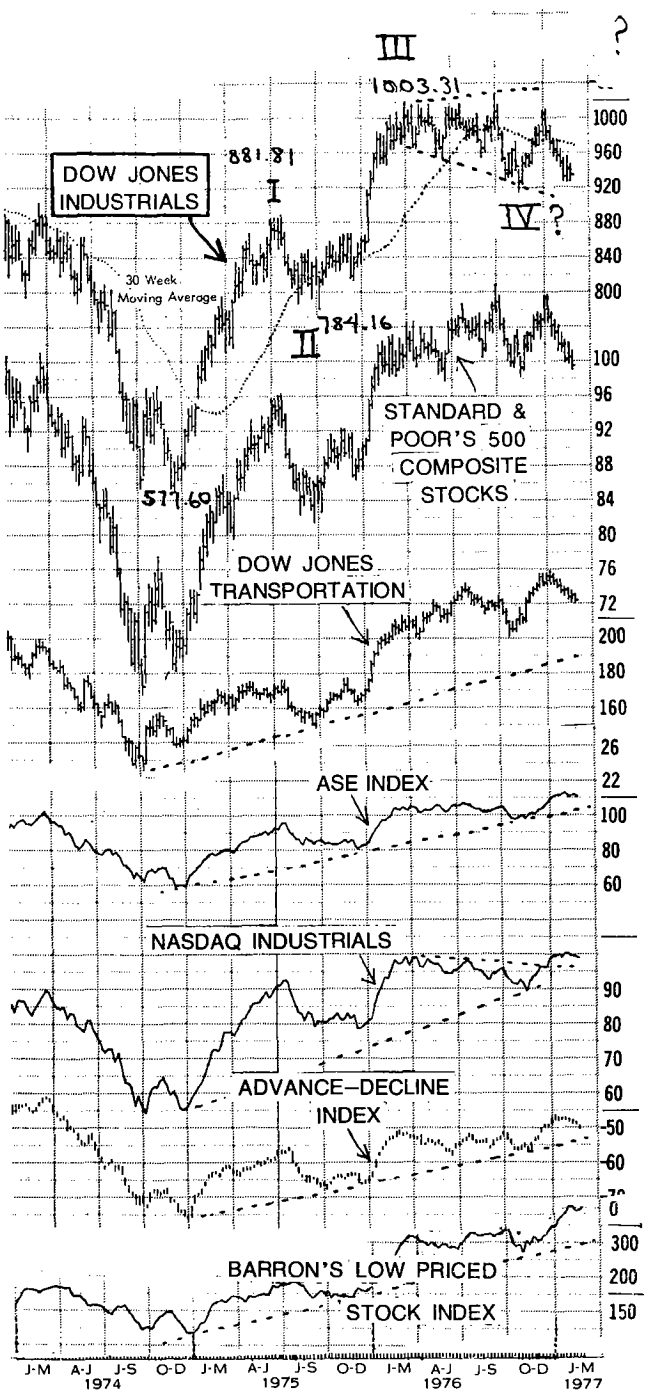


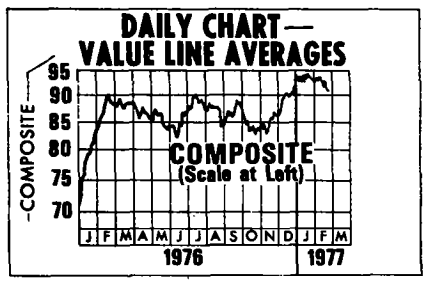
great for five or even ten rounds but it's who's ahead when the *final bell rings* that tells us the story.

BREADTH NOTES: The *Advance-Decline Ratio* (see chart) came down to a February 25 low, but held its loss to less than 2 points, this despite the termination of the buying stampede. The A-D rally since the lows has been rather sluggish, and this sluggishness will bear watching. The *Primary Trend Index*, however, has put on a strong showing. As of this writing, the PTI is within 8 points of its bull market high! Through all the non-confirmations, through all the divergence and weakness, despite every kind of technical problem, the PTI has remained fixedly in its bullishly rising channel since late 1974 (see the last Letter). Although my experience with the PTI only goes back to 1971 (that is when I first formulated it), the PTI would seem to be telling us that there is a stubborn, relentless, underlying strength in this market.

ELLIOTT WAVE STUDIES: One of my deep interests is the Elliott Wave Principle as applied to the stock market. There are only a handful of men in the world who I consider expert at interpreting the Wave Principle. Charles J. Collins of Detroit, A. J. Frost of Canada, Robert Prechter of Merrill, Lynch in NYC. Recently I received letters from both Frost and Prechter, and putting their thoughts together with my own, I have decided to present another Elliott report to subscribers. I want to stress, however, that the following interpretations are mine, and they do differ in some aspects from those of Frost and Prechter.

Unfortunately, these studies are not easy to follow or to comprehend, and they do require a good deal of thinking. But I feel that Elliott is well worth it. Like any other market study, Elliott can be useful at times and useless at others. Certainly Elliott was invaluable to me all during the 1960's and 1970's and particularly during 1974 when it helped me identify the final bear market bottom.





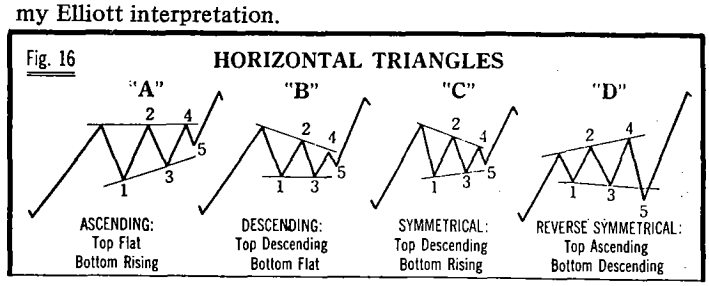
As veteran subscribers know, the Elliott Wave Principle states that all bull markets take the form of five major waves, the 1,3,5 waves being advances and the 2 and 4 waves being declines or corrective waves. Elliott sees all bear markets as 3-wave sequences, with the 1 and 3 waves being declines and the 2 or middle wave being a corrective advance. All of the major waves in both bull and bear markets can be sub-divided into many smaller waves, but I want to try to keep this discussion as simple as possible.

I have included a number of charts here which should help to illustrate where I think the market (actually **I am dealing with the Dow Industrials**) could be in Elliott terms. Charts are courtesy of CMI, Camano Island, WA 98292.

As I see it, the first major wave of this primary bull market began at the December, 1974 low of 577.60 (this is labelled Wave I on the chart). Wave I carried the Dow to 881.81 in July, 1975. Next came a simple correction. This first corrective wave (Wave II) took the Dow down to 784.16 in October, 1975. Wave III started from the 784.16 low of mid-1975. This wave advanced to the March, 1976 Dow peak of 1003.31. Wave III (as I show it on the chart) is somewhat suspect, because an Elliott Wave III is almost greater in extent than a Wave I. Therefore, what I have labelled as Wave III may ultimately turn out to be only the first leg of a very much larger Wave III (a bullish hope, certainly). But only time will tell.

Elliott made a point of the phenomenon of **alternation**, which states that where corrective Wave II in a bull market is *simple*, corrective Wave IV will be *complex*—or vice versa. Note that corrective Wave II (during 1975) was indeed simple, and this was one of the reasons why I felt that the market was in for a lot of sideways and complicated action following the late rise into 1976. Wave IV' as you can see on the chart, is far more extended and complicated than was Wave II. It is therefore running true to Elliott form.

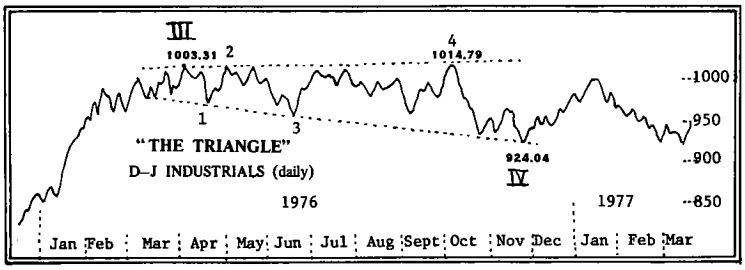
As I interpret it, advancing Wave III ended on March 11, 1976 at 1003.31 on the Dow. What followed was corrective Wave IV, a wave that is actually a most fascinating pattern. Elliott alludes to this kind of pattern in this 1939 article in *Financial World*, and he terms it a "reverse symmetrical triangle." This is the structure which has been **confusing** almost every analyst and investor in the nation since early 1976. But as I see it, we have now probably completed the Elliott reverse triangle. The triangle wave-form, I should emphasize, **only occurs during a Wave IV**, and thus the triangle of 1976 would appear to fit into my Elliott interpretation.



For the interest of subscribers, I am including the actual diagram drawn by R. N. Elliott for his article on triangles in the 1939 *Financial World*. In my opinion, there is a good chance that we completed a "D" type triangle at the 924.04 Dow low of November, 1976. If so, then the next major Dow move should be Wave V, an advancing wave which will either (1) complete the entire bull market which began in December, 1974, or (2) complete the first leg of a much larger Wave III.

I have also drawn a daily chart which shows the extraordinary Dow reverse symmetrical triangle in detail. Here we see the termination of Wave III at 1003.31 (March, 1976). Next came the five-point reversal triangle of March to November, 1976, terminating with the 924.04 low of November 10.

The importance of the 924.04 low (if indeed that is to be the Dow low) should now be apparent to all readers. If 924.04 was THE low of Wave IV, then we are currently moving into Wave V, which should be the most speculative wave yet seen in this bull market. In order to allow readers to understand why



I think that 924.04 "could have been the low," I now want to go into one mathematical aspect of Elliott.

I often work with the *Fibonacci numbers,* which are most useful in Elliott. The Fibonacci series has the following properties (a) the sum of any two numbers forms the next number as follows: 1 plus 1 equal 2, 2 plus 1 equals 3, 3 plus 2 is 5, and so on to 8, 13, 21, 23, 55, 89, 144, etc. (b) The *ratio* of any number to the next higher number in the series is **61.8 to 100.** (c) The ratio of each number to its lower number is 161.8 to 100. The Fibonacci series appears very frequently *in nature*, such as five appendages of man, (two arms, two legs, head), five fingers, five toes. Age of maturity is 21, beginning of teenage years is 13, a musical octave is 13, 5 black and 8 white, an on and on. Elliott used the Fibonacci series to underline all his work, and its application to the Wave Principle can immediately be seen (i.e., a bull market is 5 waves, 3 up and 2 corrective).

Going back to the chart, the decline represented by Wave IV should serve to correct the rise of Wave III only (since Wave I has already been corrected by declining Wave II). The advance of Wave III took the Dow from 784.16 to 1003.31, a distance of 219.15 Dow points. If we apply the *Fibonacci ratio of 61.8%* to 219.15, we get 135 points. Adding 135.43 to 784.16 gives us 919.59, a figure which is less than 5 points from the 924.04 low of November 10. This suggests that 924.04 could have been the end of Wave IV, or it suggests that there might be one more decline which would take the Dow slightly below the November low if 924.04 (to around 919).

Turning back to the composite chart of the seven different averages and indices, it is interesting to note the possible confirmation of the thesis that Wave IV ended in November, 1976. On the latest decline, the *Standard & Poor 500* held above its previous lows in November. The *D-J Transportation Average* not only held far above its November low on all the action since, but it never got near its rising bull market trendline. The *ASE* (Amex) index has held above its bull market trendline and recently moved into new high territory, suggesting that November was the Amex low and that a new Amex rise is underway. The exact same thing can be said of the NASDAQ Industrial Average.

The *Advance-Decline Ratio* (which tends to act like an unweighted average), has held well above its bull market rising trendline. This is true, even though the "buying stampede" of the past four months has ended. *Barron's Low Price Stock Index* has pushed into new high ground for the bull market, suggesting that an increasing degree of speculation could lie ahead.

At the bottom of the chart I have included the broad, unweighted Value Line Index which includes over 1600 stocks on the NYSE, the Amex and the O-T-C. Like the A-D Ratio, the Value Line, despite all recent corrective action, is currently near its bull market high. The rise from the November, 1976 low on the Value Line Composite has the look of the beginning of an important new rise.

Conclusion: If the November, 1976 Dow low of 924.04 represented the termination of the Wave IV triangle correction, then the next major move of the Dow should be an advance which we will label Wave V. Since fifth waves are usually the **most speculative** waves, we should be prepared for frothy action on the next important rise. If successful, Wave V should carry above the bull market high or above 1014.79.

The termination of Wave V could mark the end of the whole bull market, or it could mark the end of leg 3 of a much larger major Wave III. There is simply no way of telling now. But our tactics in either case should be the same. If the end of Wave V marks the finish of the current primary bull market, we will sell to avoid what could be a severe bear market. On the other hand, if the end of Wave V marks the end of the second rising phase of a huge Wave III (obviously, we will label it Wave III in retrospect), it will still pay us to move out. This is so because we have been in a mild triangle correction during 1976-77 and the next downside correction is almost guaranteed to be more severe than anything we have seen so far in this bull market.

Note: Hamilton Bolton, a great Elliott student, observed that in bull markets the Wave III advance is usually **greater (in extent)** than the Wave I advance. But there are exceptions. The rule of the exceptions is that Wave III may be shorter than either Wave I or Wave V, but Wave III is **never shorter than both.** This rule applies to the current bull market. Note on the chart that Wave III of this bull market is shorter than Wave I. This indicates that the coming Wave V should be greater than the 219 points of Wave III. Or it indicates that Wave III, as I have drawn it on the chart, is only the first wave of a much larger 5-leg structure, all of which will ultimately be labelled as Wave III.

Either way, it is a very bullish concept for the stock market. Elliott is saying that for whatever reason (Jimmy Carter, do you know something we don't?) this bull market is going considerably higher. If, for instance, 924.04 was the low of Wave IV and the coming Wave V results in a Dow advance of just 239 points (or only 20 points greater in extent than Wave III), then the ultimate Dow peak could be 1143. On the other hand, if Wave III as shown on the chart turns out (in retrospect) to be just the second rising leg of an extended Wave III structure, then the Dow is fated to go higher than even the wildest optimists are thinking about before this bull market breathes its last.

After all that, I suspect the typical subscriber might say, "Russell, I can follow about half of what you're talking about, but so what! What good is Elliott, really?" And my answer is that I use Elliott as a more important frame of reference. I believe man's life makes sense, and since the stock market is made by the minds and emotions of men, I think the market should and does make sense. Using both the Dow Theory and Elliott, I feel that I am working in twilight and on some occasions I feel I am actually working in the light. Without Elliott or the Dow Theory I know I would be operating totally in the dark.

NEW AGE: This has been a heavy Letter so far, and I want to lighten up a bit. In the last Letter I wrote a warning about the possible demise of capitalism, and now I want to present the brighter side. We may not have capitalism, but we could well have a rise in the level of our spiritual lives. At any rate, here are my happy thoughts.

Last night I was reading a book by a woman who created a great stir during the latter part of the nineteenth century. Her name was Madam H. P. Blavatsky, and the book is entitled, "The Key to Theosophy." The book deals with a kind of new religion or concept of spirituality which gained a large following during the late 1800's (Theosophy still has a large following today).

What struck me particularly, however, was a single paragraph in the book which runs as follows: "I must tell you that during the *last quarter of every hundred years* an attempt is made by those 'Masters' of whom I have spoken, to help on the spiritual progress of humanity in a marked and definite way. Towards the close of each century you will invariably find that an outpouring or upheaval of spirituality–or call it mysticism if you prefer–has taken place. Some one or more persons have appeared in the

world as their agents, and a greater or less amount of occult knowledge and teaching has been given out. If you care to do so, you can trace these movements back century by century, as far as our detailed historical records extend."

I immediately thought of the last quarter of the eighteenth century, and I wondered if it was a coincidence that that final quarter was greeted by the Declaration of Independence (1776) and the emergence of the most learned, spiritual and extraordinary group of leaders that probably has ever been produced by any nation at any time. The list is too numerous to complete, but we need only begin with Washington, Jefferson, Hamilton, Paine, Madison, Franklin, on and on.

Turn to the last quarter of the 1800's, and we see the arrival on the scene of Clara Barton, who founded the American Red Cross, and those two great Russian mystics, Tolstoi and Dostoievski. During the last quarter of the 1800's, a great revival of religious interest occurred, and in the US we saw the rise of the Jehovah's Witnesses. Blavatsky gave the world Theosophy. In 1875 Mary Baker Eddy published her famous "Science & Health," and four years later she founded the Christian Science religion.

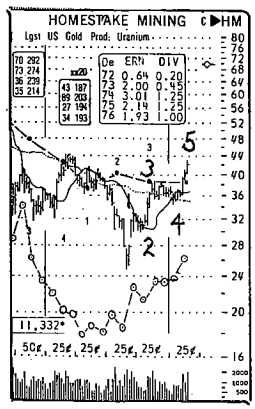
It is interesting to review (very briefly) events of the twentieth century. The first quarter (1900 to 1925) brought America to greatness, it saw wide social reform, and it produced World War I. It was a quarter of struggle and basic social and political change. The second quarter (1925 to 1950) saw the boom of the late 1920's and the collapse and depression of the 1930's. It saw World War II during the 1940's and the 1950 Korean War. The second quarter was characterized by violence and upheaval.

The third quarter (1951 to 1975) saw "the sun come out." A great primary bull market began in 1949 and lasted until 1966. The '50's constituted a period of happy make-believe for the US. America tried dope, rock, cars, hippies. The '60's saw some sobering up, and then the disaster of Vietnam. The dope and crime scene got bigger, and cynicism took over. The '70's so far, have given us a market crash, a new bull market, and the beginning of the "age of limited resources." In the White House, we now have an evangelist instead of a paranoid. And in the face of contracting oil and gas reserves, the powers above have presented us (1977) with a warning in the form of the coldest winter in 100 years.

The period from now to the end of this century should be doubly spiritual, since it ushers in the final quarter of the 1900's, and that overlaps with the so-called "Age of Aquarius" (a period in which spirituality is supposed to overtake the earth's population). Personally, I think that good things are going to come; I think it, despite the obvious material shortages which are confronting us, and despite (or maybe because) of the new reality which is arriving. The Germany which produced the Holocaust of the early 1940's is now working with Israel; the great grandsons of American slave-owners have been watching "Roots" on TV; those of us who fought in World Wars I and II and Korea and Vietnam are at peace; psychology has (in large part) replaced the ghastly Bedlam houses of a century or so ago. The Dow is still near 1000, the US has survived the Great Blizzard of '77, and the age of solar heating is just over the horizon.

So I say, let's get in tune with the final 25 years of the 1900's. The last quarter is fated to be better than we think–in a reality way (i.e., minus the double talk), and in a spiritual way. I feel certain of it. Now there's a contrary opinion!

NEXT MAILING: March 18th



GOLD: Gold bullion has made a good move up, but I feel that those who expect a massive move in gold such as the 1971-74 bull market (when gold rose 450%) are going to be disappointed. I mentioned the law of "alternation" in the Elliott section, and that same law seems to apply to successive bull markets. Following a big bull market, one usually sees a smaller one (such as the 1932-37 bull market which followed the massive 1921-29 bull market). Successive bull markets in groups and individual stocks seem to run the same way. Therefore, gold is in a bull market today. However, I do not think this gold bull market is going to be as profitable as the last for gold-holders.

The chart of *Homestake* shows that the stock has already completed a small 5-wave pattern. This could mean that it has done the greatest part of its upside work for a while, and that a rest is due. I would not be surprised if a rest is also due for bullion. As a guess, I think that the **130 level** should hold gold on any correction, but watch the **149 level** on the upside. This is the *halfway level* of the 1974-76 bear market decline from 195 to 103. Bettering 149 (or let's make it an even 150) would be a bullish technical accomplishment, and should open the way for an ultimate try for the old 195-200 high. I base this on the 50% Principle, which states that following any reaction, if the price movement is powerful enough to recover half or more of the ground lost, then the odds favor an eventual attack on the old high. (HM chart courtesy of *Quote*, PO Box 213, Wichita, KA 67201).

Once again I'll say that I would prefer Krugerrands in the vault to ADR'S of S. African mines. When you own Krugerrands, you have only one worry, and that's the price of gold. When you own the ADR's today, you have all kinds of worries, and I'm not talking about maybe Idi Amin Dada declaring war on S. Africa. I am talking about black nationalism. I tend to think in trends, and if anyone can explain to me how the black majority is going to accept less than ultimate economic, social and political equality, I'd like to hear it. Yet all the arguments from my friends in S.Africa are based on the concept that some form of the status quo can be retained. Very frankly, I don't see it.

ITEMS: Jacques Coe (a partner in the Wall Street firm of Cowen & Co.) is one of the great, veteran observers of Wall Street and the stock market. Mr. Coe (a subscriber) has forgotten more about the market than most of us will ever remember. Occasionally I receive a note from him, and I am always interested in what he has to say. Last week came a note, and I thought this paragraph was particularly interesting:

"Those who fear the resumption of double digit inflation in the immediate future may find themselves very much short of the mark. A more realistic estimate of an increase from 5% to 5½% is no reason to become a bear on the stock market. Never in our financial history have we entered a serious market decline with the Dow Jones price earnings ratio under 10."

* * *

There are 44 Government agencies and 1,240 boards which now employ 100,000 regulators using 6,000 different forms. Regulatory activities cost $130 billion in costs during 1975. The Declaration of Independence contains 1,322 words, a Government regulation on cabbage totals 26,911 words!

* * *

According to a *New York Times* article, there are 7 "deadly taboos" which will not be discussed on TV. Here's what they are: (1) Big Labor, (2) Big Business, (3) Big TV Networks, (4) The Auto Industry, (5) Nuclear power, (6) the Military-Industrial complex, and (7) US Foreign policy. You don't believe it? Check and see if one of these comes up for discussion on your tube.

* * *

I thought this quote from a *Financial World* interview with former Treasury Secretary Simon was worth repeating: "*I think we have an absolutely perfect system in this Republic. But remember Ben Franklin, who, when walking out of the Constitutional Convention in Philadelphia was asked what kind of government did you give? 'A republic, if you can keep it.' The history of democracy throughout the world is a poor one. Anytime the people can vote themselves the benefits of other people's hard work, it is the beginning of the end of a democracy. People learn how easy it is to do that. We're seeing this happen all over the world today. Higher taxation, regulation, harassment.*" (My notes, only 20% of the world's population now lives in comparative freedom).

* * *

Professor E. E. Jennings of Michigan State University is an expert on executive behavior and a veteran "President watcher." Of Carter he says, the President "*is a man on a white horse but he doesn't know where the battle is. He is a man in search of a mission.*" He adds, "*Mr. Carter has a sense of personal history, a feeling that he is . . . expected to lead. . . When you see that type of person, you wait for a cause or a mission to emerge. . . Carter is 'the maximum leader type', a person who can see a crisis down the road and deal with it. His ability is to zero-in on that which is not self-evident to others.*" Well, I fervently hope the Professor is right. And just in case President Carter can't find "a mission," I'll offer him one here and now. Try keeping the United States from spending itself into bankruptcy. That mission, if you can swing it sir, will make you my favorite President since Andrew Jackson.

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Last Monday Al Ullman, powerful Chairman of the House Ways & Means Committee, talked about plans for a new tax package which would represent "the most serious overhaul since the initiation of the (Federal) tax system." Ullman stated that many vital areas would be affected such as the 70% ceiling on unearned income (which, hopefully would be lowered). Another area would be the double taxation on corporate dividends. Corporate depreciation rules could be restructured to take into account inflationary cycles. The new tax reform, he stated, could be expected to greatly simplify the tax system.

Is it possible, is it actually possible that Washington at long last could be moving to provide incentives to investors, big-wage earners, corporations, those who put up the money and those who create the jobs? The mere mention of it is enough to inspire those Americans who work and save and create and build. If Chairman Ullman gets his way (and I have to think he's been talking to Carter and Lance), then this nation could move off its posterior yet, And we could yet have something resembling a powerful bull market in stocks.

LATE NOTES: Having acted powerfully for the better part of this bull market, the Transports are now turning weak, at least on a short-term basis. They have not wanted to follow the Industrials in the rally from the mid-February lows. Whether this means that the Averages will have to test the 931.42 (Industrials) and 221.83 (Transports) lows again, I cannot say. But I do feel that the low volume on the rally and decline since mid-February is telling us that both buying and selling interest has dried up. As a general rule, dull volume during a bull market in the general area of the preceding lows is a bullish indication, and that's about what we're getting now.

Again, I want to mention my Primary Trend Index. Incredibly, this composite of 8 indices and averages is now within 8 points of its February 16 bull market high of 839. That's telling me that there is a stubborn, persistent technical strength being retained by this bull market. Ultimately, that strength will be expressed by higher prices. Until then, Wall Street seems to be an exercise in frustration.

STOCKS: I'd prefer that subscribers sit with what they have, rather than add or switch around, or jump in and out. According to my friends at Ray*Signals (43 Lake Ave, Montrose, PA 18801) the following represent the group relative strength (RS) changes for this month. Fertilizers (which includes *Williams Cos. and Int. Minerals & Chemicals*) turned bullish. The Gold Groups, after acting worse than the market for 31 months, have now turned bullish on a RS trend and basis. In individual stocks, *Jewel Cos.* has joined previously recommended *Kroger* in the supermarket (food) sector. RS in *Jewel* is now bullish, after being down in RS for over two years. **Bearish** RS for March are *McDonnell Douglas, Abbott Lab., Beatrice Foods, Conn. General* and *Safeco.*

INTEREST RATES: Over the years, I'd say that one of the hardest things to predict is the intermediate-term trend of interest rates. Interest rates are a function of business loans, the Fed's desires, the economy, foreign interest rates, the bond calendar, you name it. What fascinates me is that right now about 95% of everything I read talks about "higher interest rates." It's a consensus, and it makes me wonder. I'm guessing that neither the inflation picture nor the interest rate picture is as bad as the current dire predictions.

ME and the S.E.C.: Dow Theory Letters and Richard Russell have been censored by the SEC for action in buying and selling stocks during 1974 and 1975. These actions had to do with gold shares during 1974 and other stocks purchased and sold during 1974-75. The SEC's charge was that I sold (in the case of the golds) and bought and sold (in the case of other shares) stocks which were subsequently recommended for purchase or sale to subscribers, and that subscribers were not informed in advance of my actions.

What the SEC accused me of is absolutely true. I offer no excuse, but I do state that I was ignorant of the law. I have always held that no two people can operate in the same way in the market, and that one man's reason for buying or selling may not suit the psyche or needs of another man. But in my case, I clearly see that I should have operated in stocks other than those mentioned in the Letters, so that what I did was not only unnecessary and stupid, it was also against SEC regulations.

The SEC has stated in their proceedings that I cooperated with their staff, that I had never been subject to disciplinary action before, that "any profits realized in connection with the transactions which are the subject of this proceeding were insubstantial and no client of Dow Theory Letters appears to have suffered economic loss in connection therewith." The SEC further stated that although DTL and Russell willfully violated Section 206(2) of the Investment Advisers Act, the term 'willfully" as used in the order "shall mean only that DTL and Richard Lion Russell intentionally committed the acts which constituted the violation and not necessarily that they intended to violate the law."

At any rate, aside from the fact that the SEC rules were violated, I do want to say that I did not hurt anyone, I cost no one any money, and I learned a lesson. In view of the violations of the SEC rules, I was censured and have come to a settlement with the SEC on the whole matter. The following points of the settlement concern my subscribers and their subscriptions. All subscribers on the books as of March 8, 1977 will receive a two-month extension of their subscription at no cost to them. If your subscription comes up for renewal in the days, weeks or months ahead and you decide to cancel, you will receive an extra two months. Since this is going into effect as of March 8, any new subscribers who come in after March 8 will not receive this extra two months of subscription mailings. And that's all I have to report here.